

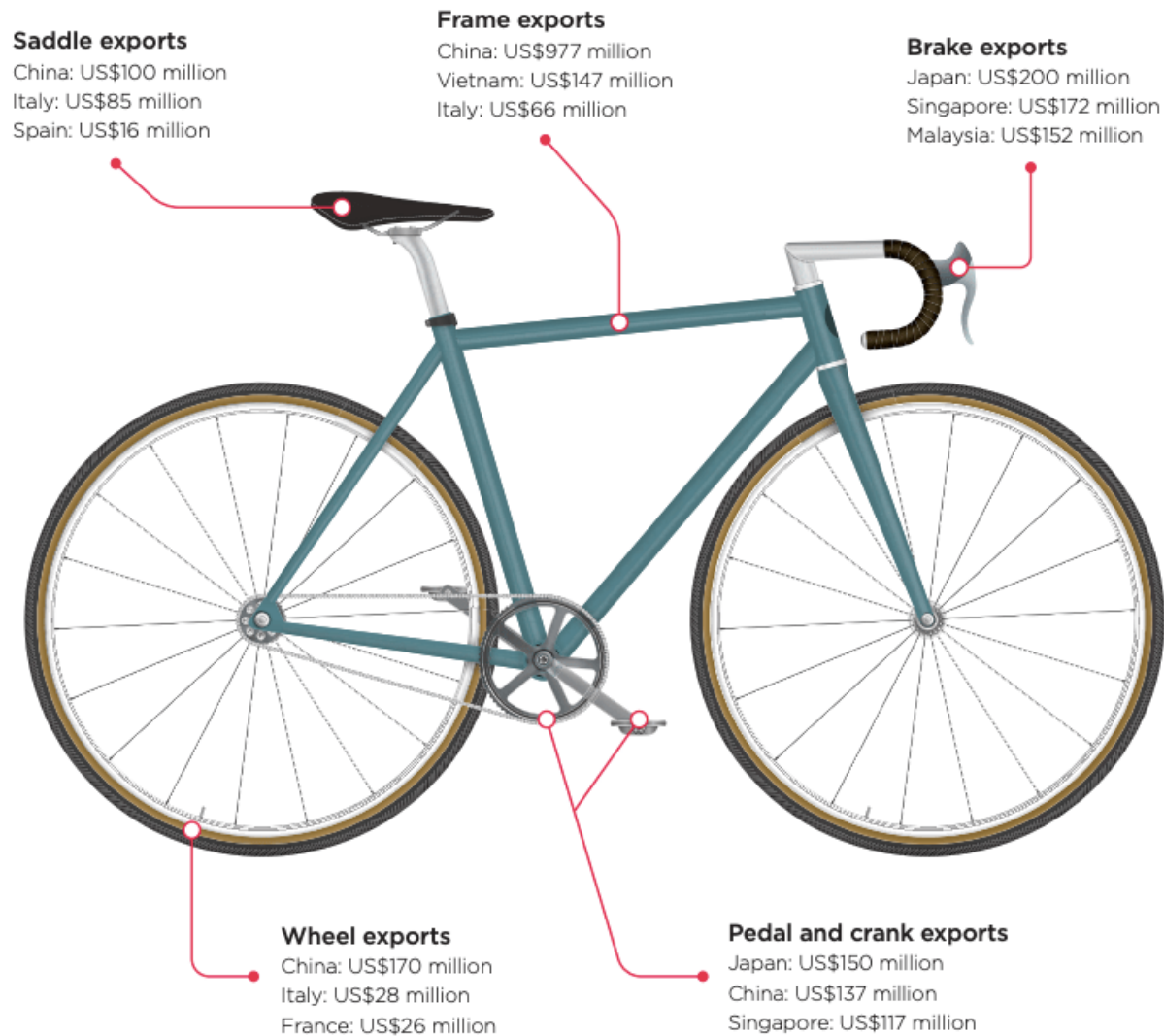


ASIAN INFRASTRUCTURE
INVESTMENT BANK

Global Value Chains as Levers to Peace and Prosperity in Asia



The Global Value Chain of a bicycle



Source: WDR 2020 team, using data from UN Comtrade database. See appendix A for a description of the databases used in this Report.

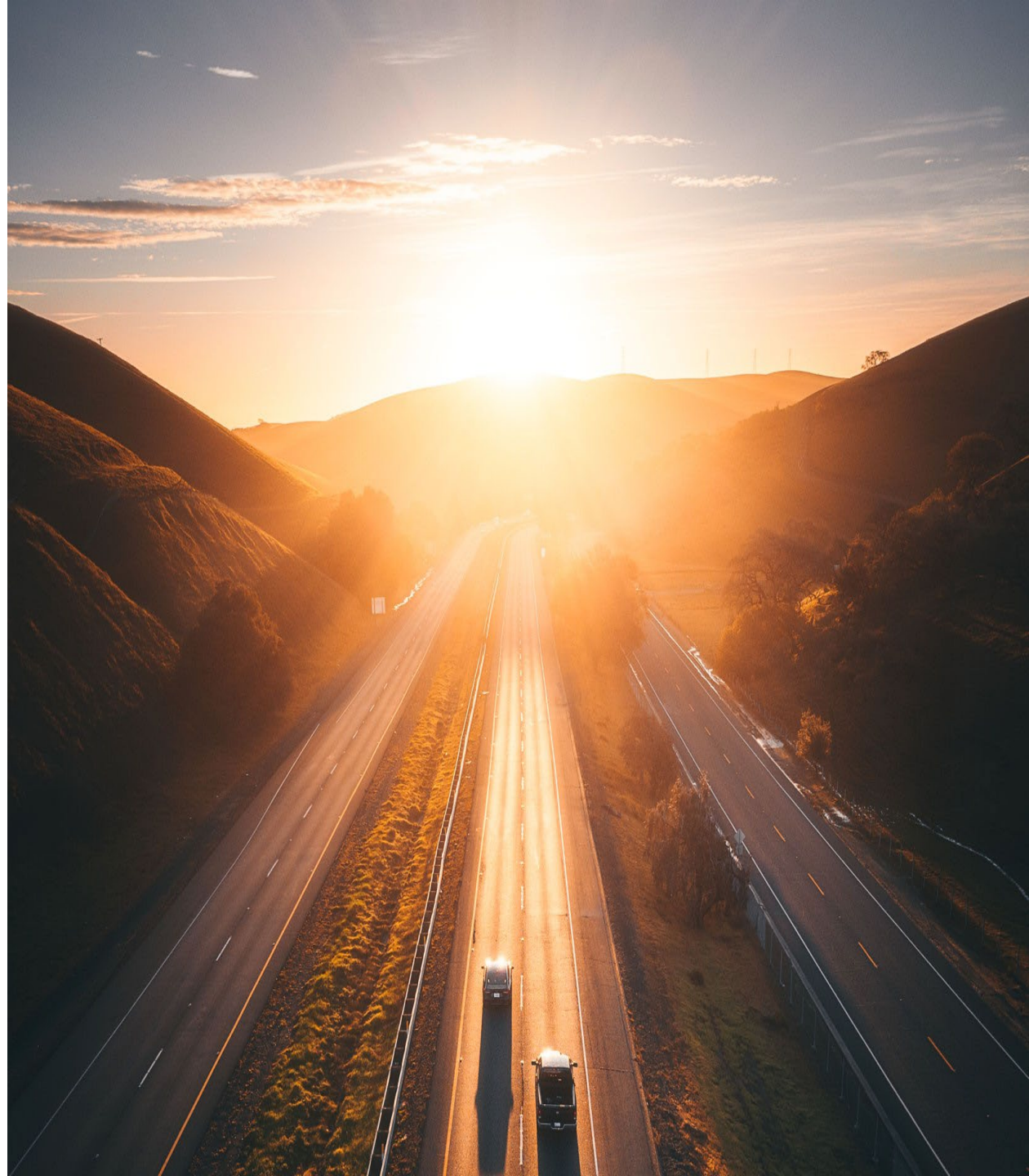
The global context

- GVCs create development pathways for many emerging economies.
- GVCs and infrastructure deeply connected and mutually reinforcing.
- GVC expansion slowed down and shifted from advanced to emerging economies.



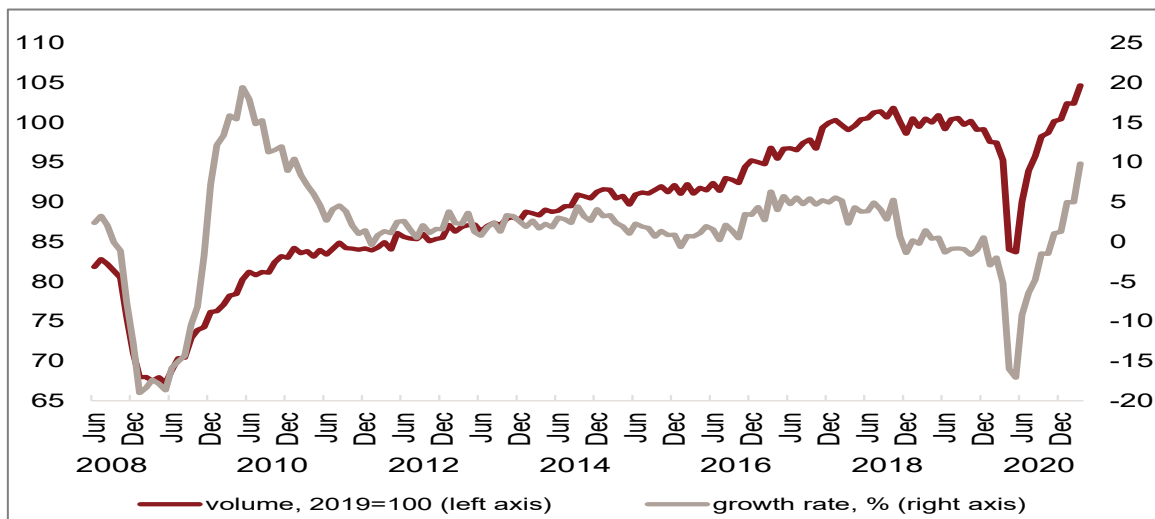
Challenges and opportunities

- **Pandemic shocks** – lockdowns and reopening of economies.
- **Trade tensions and policy.** Uncertainty in trade policies impacts GVCs.
- **Technological change.** Digital infrastructure and readiness fundamental to exploit opportunities.
- **Net-zero transition.** Existential issue for GVC lead firms and countries compete offering green infrastructure.

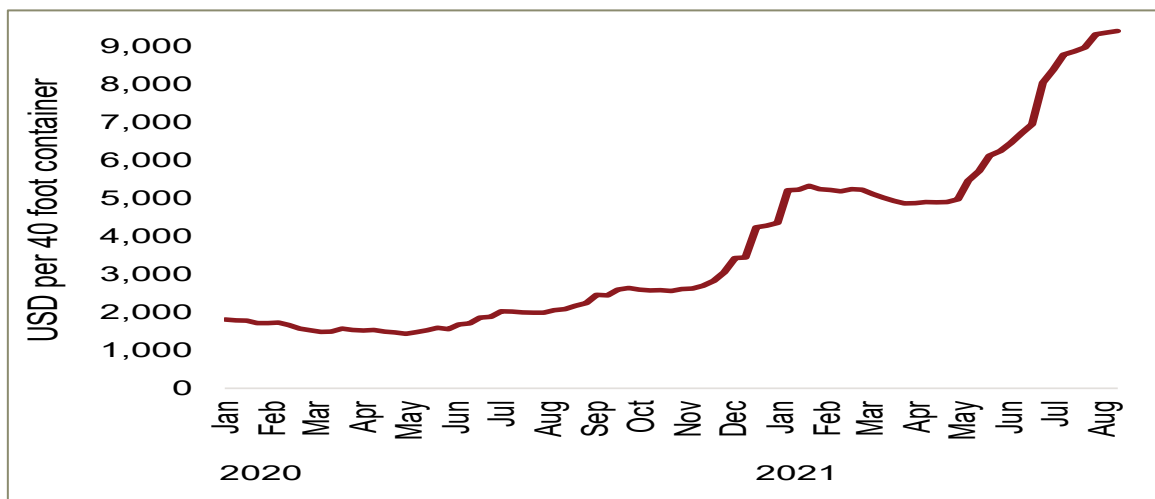


Pandemic shocks persist

Fast recovery of global trade

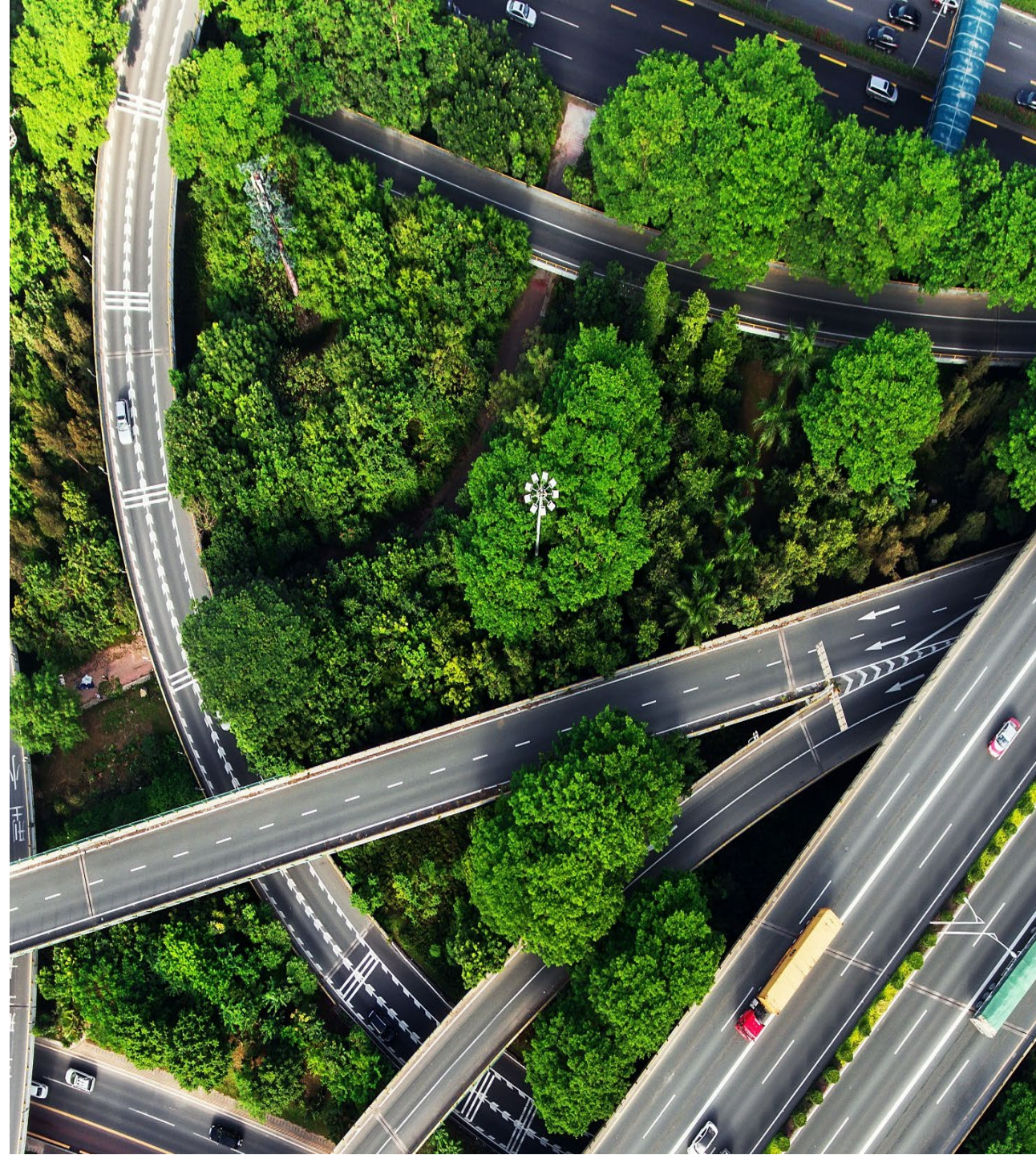


But bottlenecks in transport

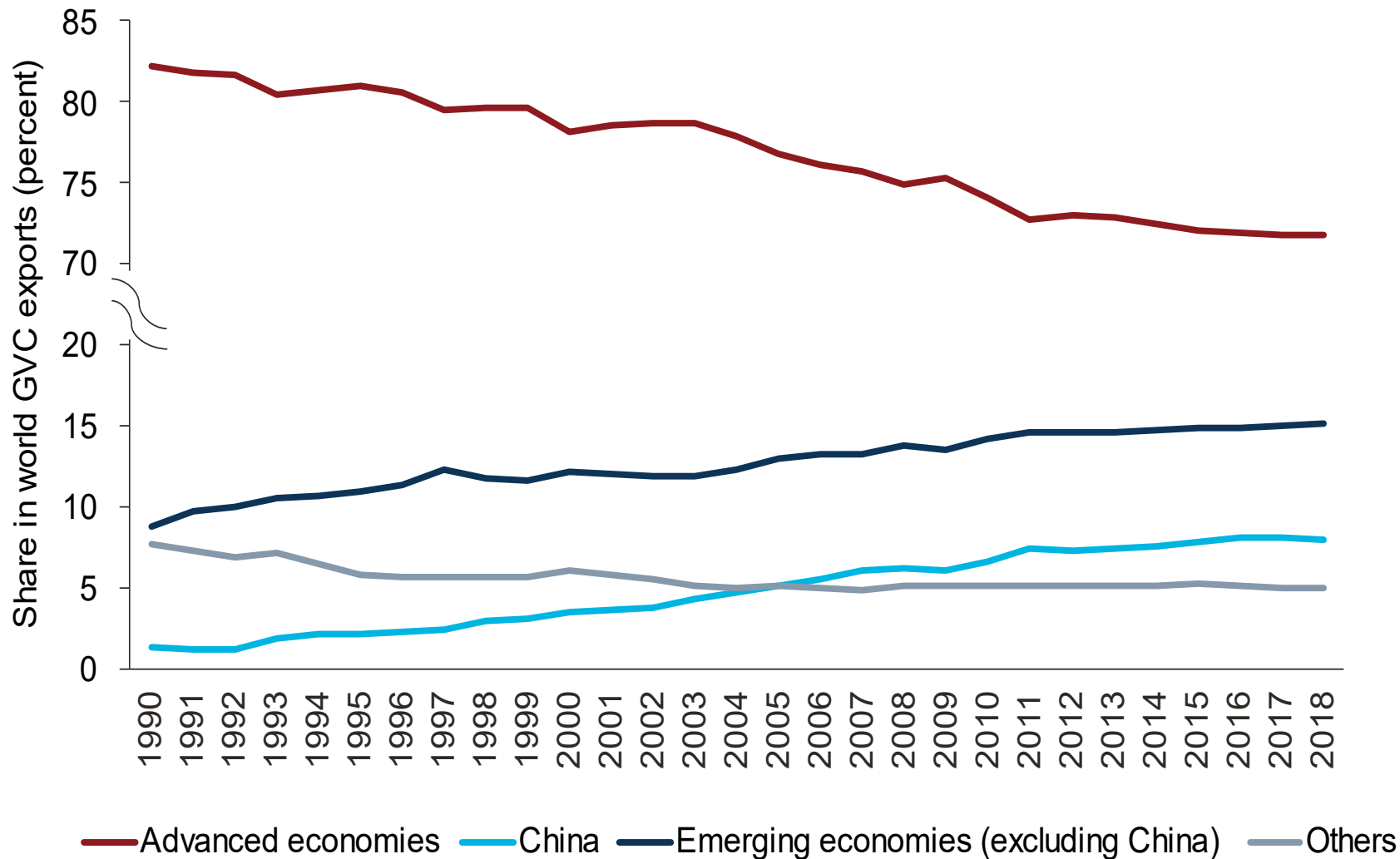


- Infrastructure held up well through pandemic
- Bottlenecks as economies reopen
- Too early to assess impact on GVCs
- GVC arrangements sticky
- Long term economic drivers likely dominate

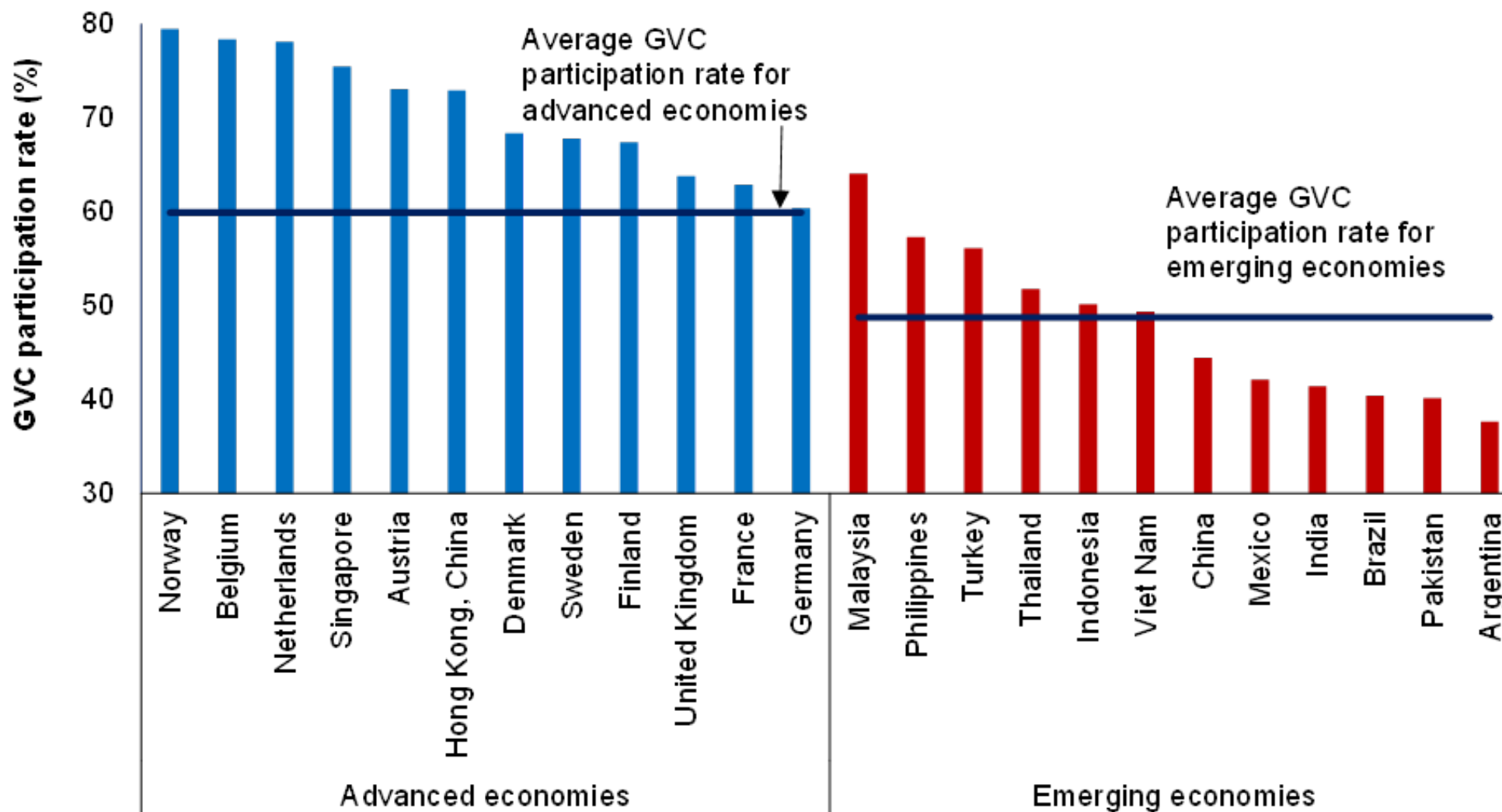
GVC strategy and infrastructure development



Emerging economies gain higher share of GVC exports

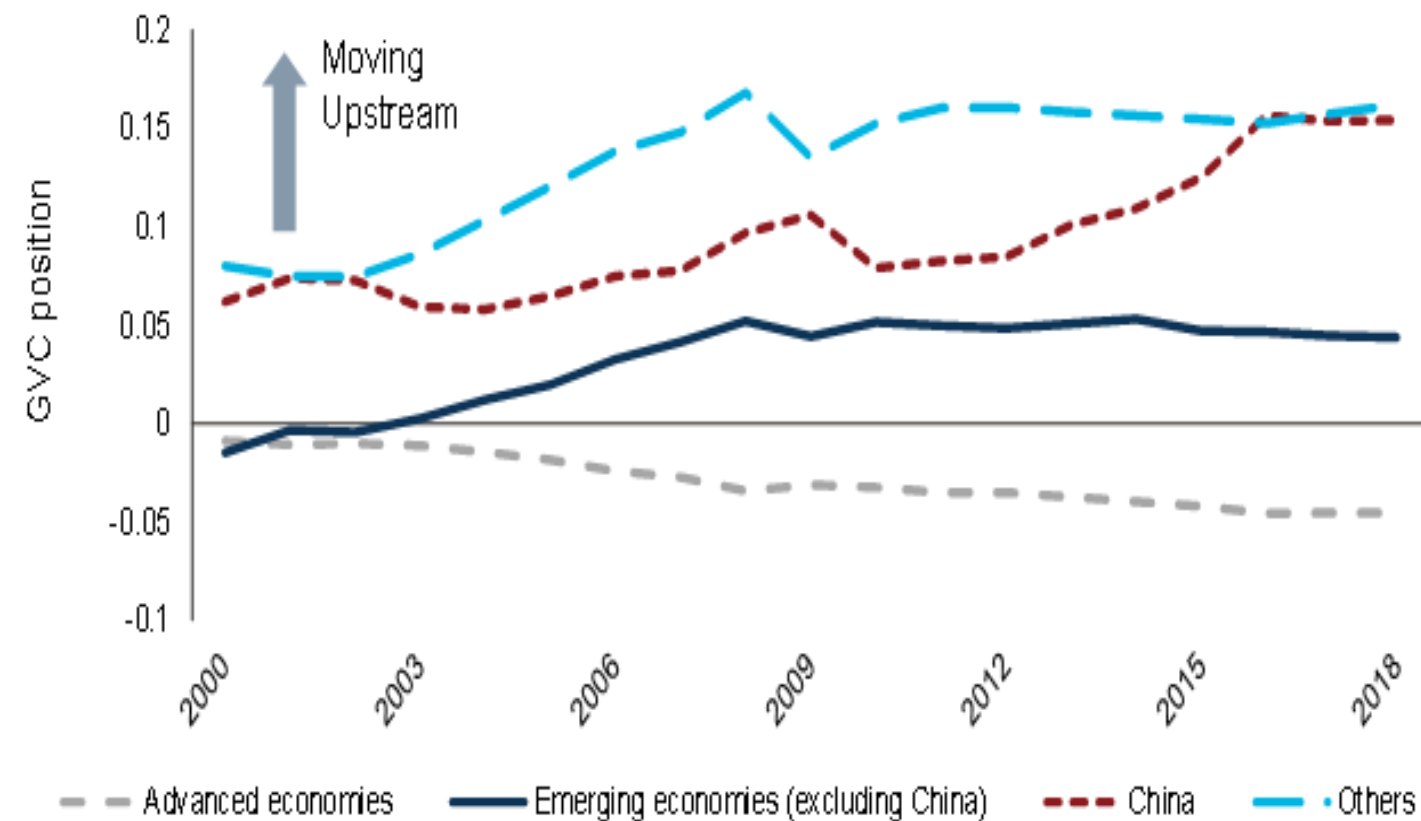


Huge scope to continue expanding GVCs in emerging economies



GVC upgrading has took place in many ways

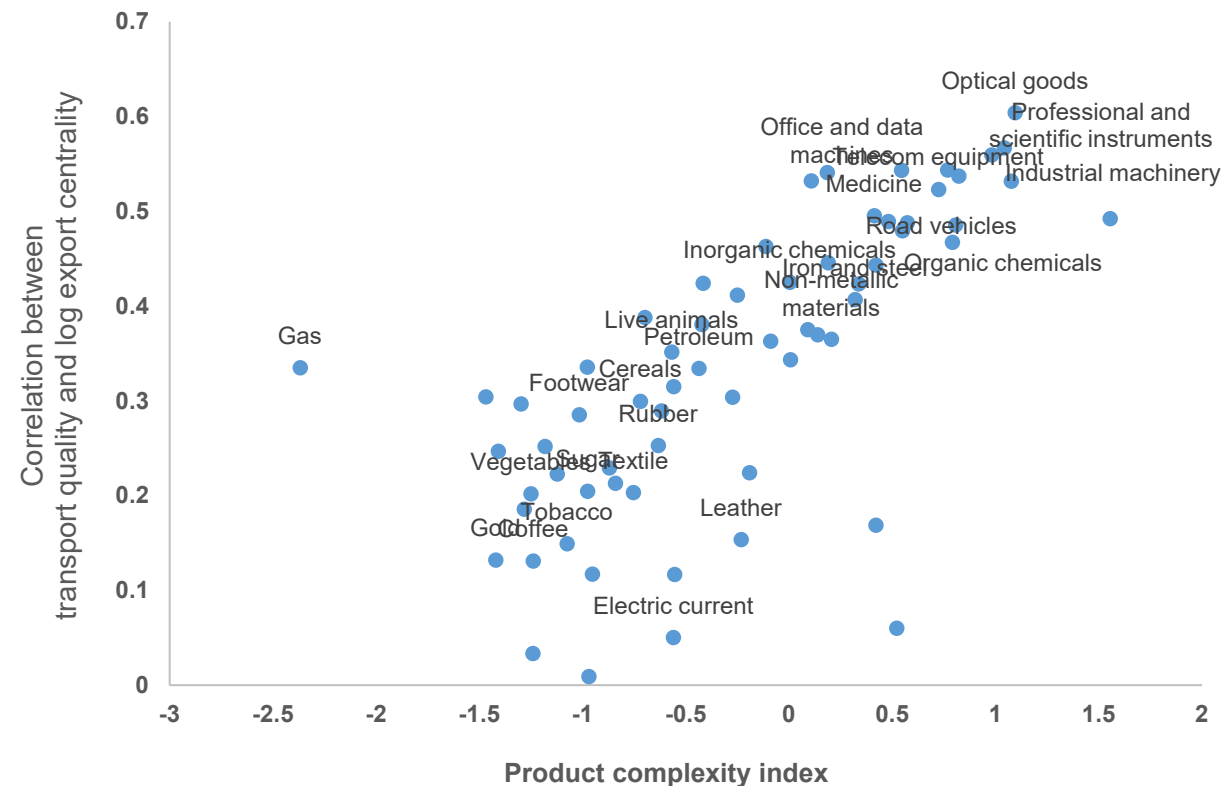
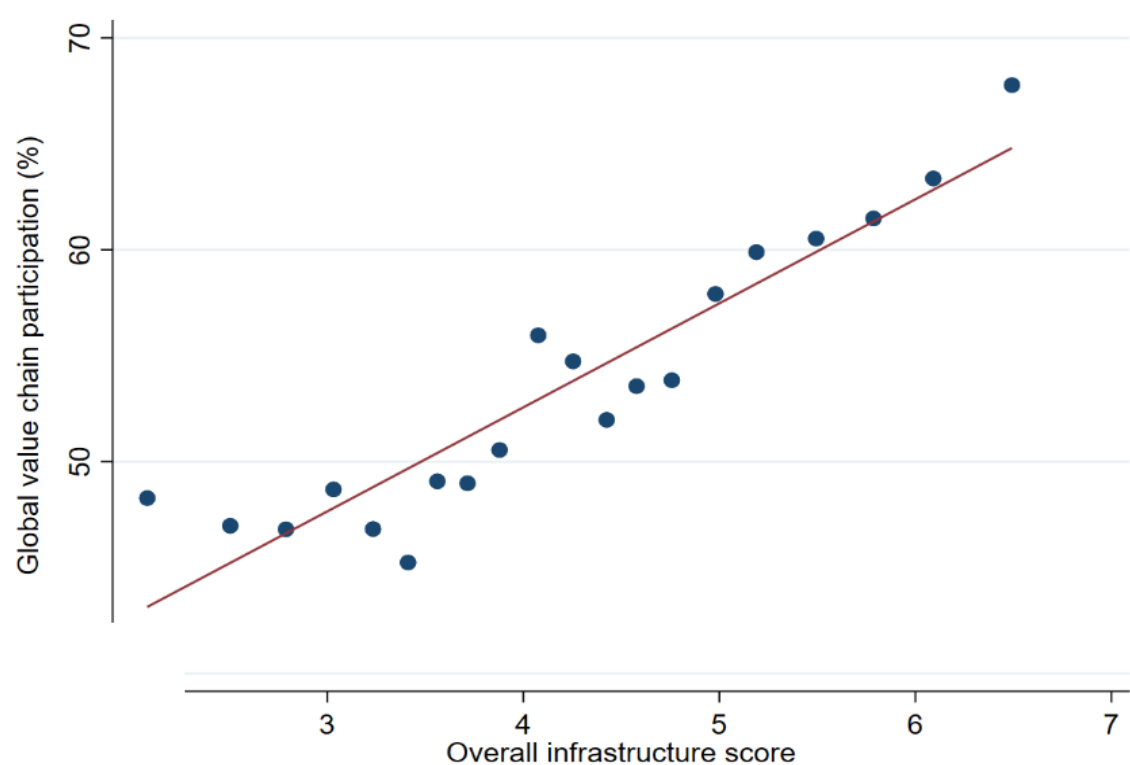
Global Value Chain Position



- No one-size-fits all:**
 Opportunities in both upstream and downstream GVC activities for innovation and upgrading – nothing inherently good or bad about either
- China:**
 Upgraded and imported fewer intermediate goods acquiring capabilities to produce domestically
- India:**
 Realized higher value-added through functional upgrading (increasing skill content of individual tasks)

Infrastructure decisive for expanding GVC participation

- Ability to break up production process and exploit cost efficiencies depends on quality of infrastructure.
- A certain “infrastructure prevalence” – electricity and transport – is necessary for GVC participation.
- Connectivity is especially key for complex products.



GVC strategies determine infrastructure requirements

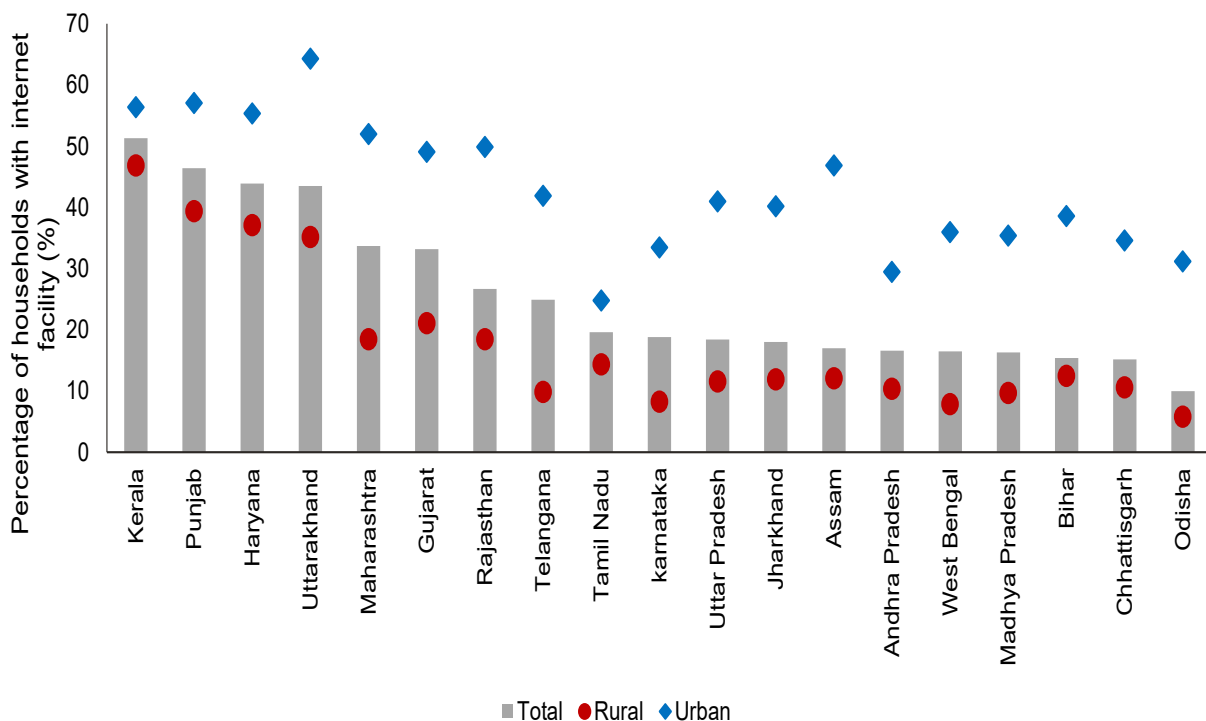
By parts of value chain and sector:

- **Pre-production activities**
 - Such as design, research and development and brand building
 - Infrastructure that facilitates face-to-face knowledge exchange (urban areas)

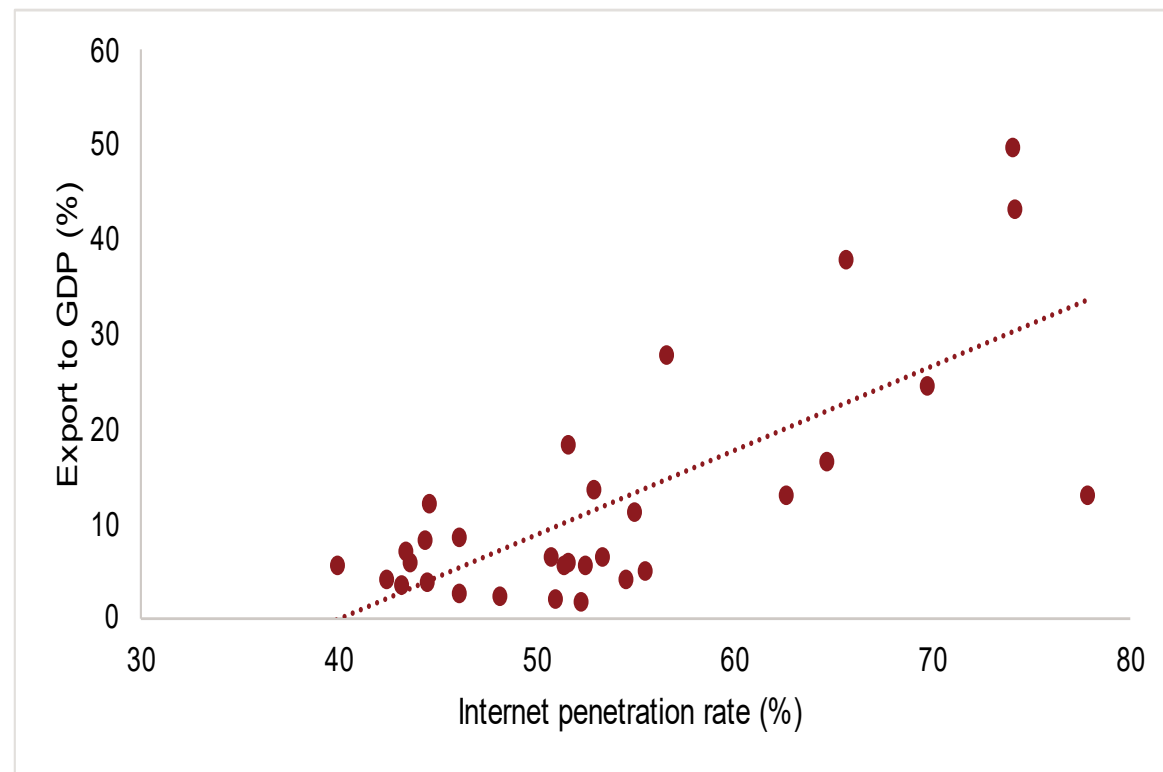
- **Post-production activities:**
 - Such as after-sales service and marketing
 - ICT for engaging with customers and improving logistics

However, digital divide may become a major constraint

In India, the proportion of households that can access internet ranges from more than 50 percent in Kerala to less than 10 percent in Odisha



In China, cities that have better internet coverage have higher exporting intensities



GVC Infrastructure Strategy

- Ability to break up production process and exploit efficiencies depends on infrastructure quality
- Different parts of value chain and different sectors require different infrastructure
- Digital infrastructure transforming value chains – bridging "digital divides" critical



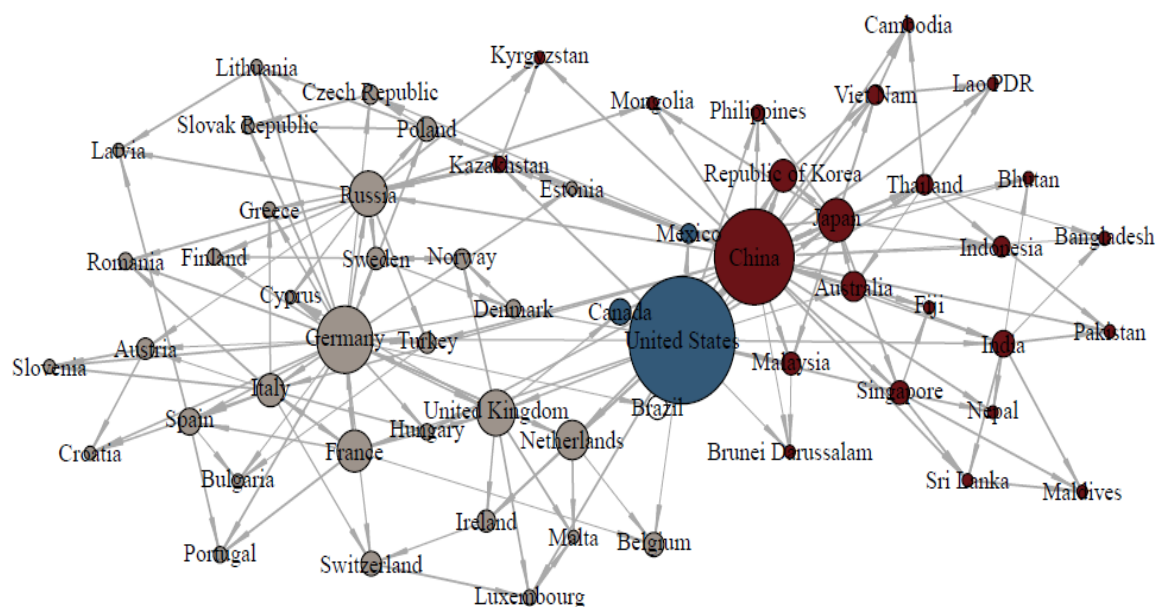
China and GVCs



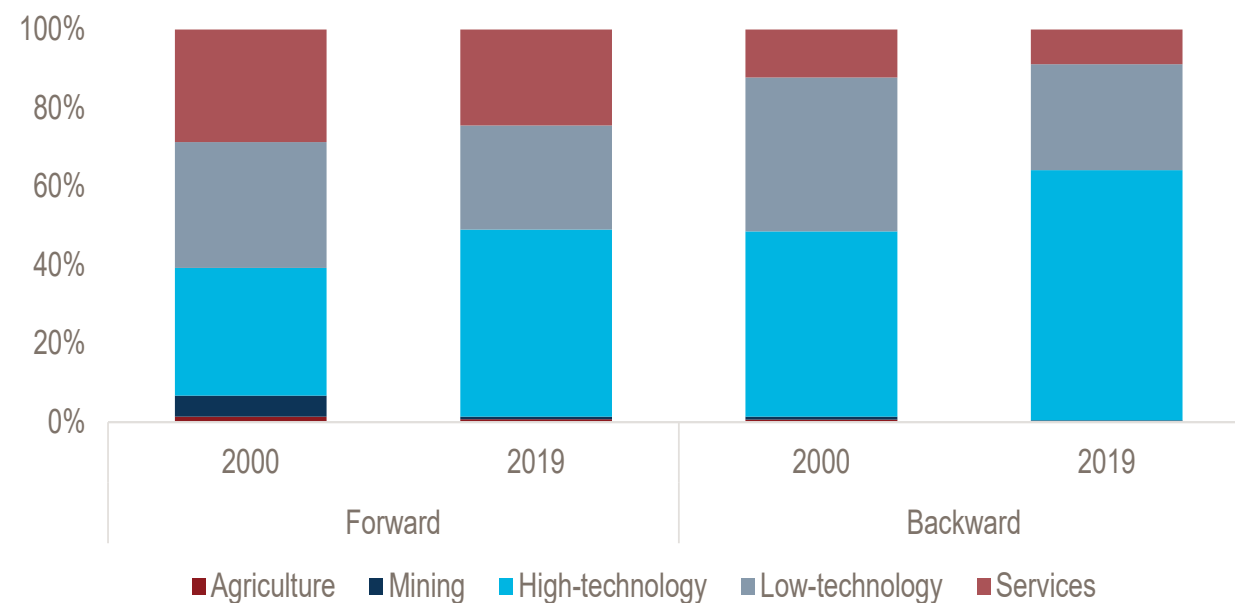
China is moving toward higher value-added GVCs

China has become deeply integrated into GVCs

2019



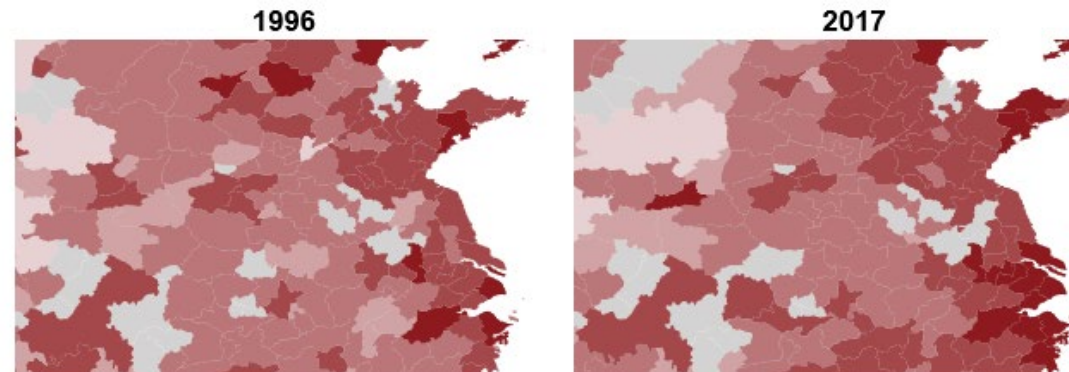
The contribution of high-technology manufacturing increased significantly



China: Infrastructure facilitated spread of internationalization

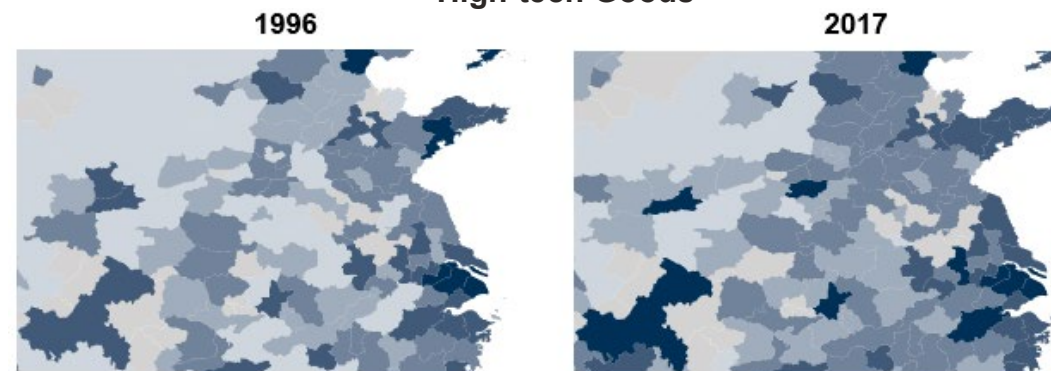
- More inland areas exporting more intermediate and high-tech goods.
- China-Europe railways turned inland cities like Chengdu and Chongqing into new high-tech export centres

Prefecture Share of National Exports Intermediate Goods



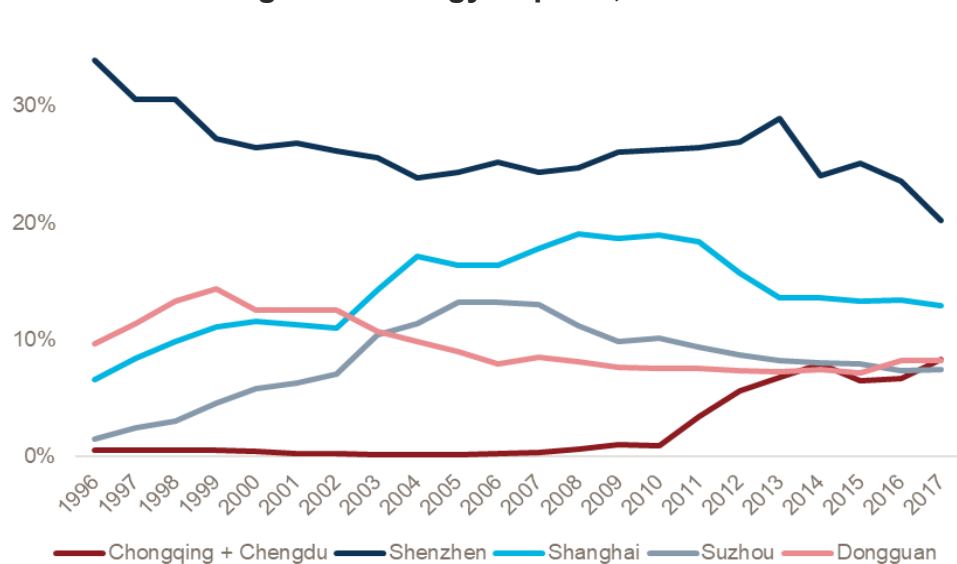
% of National Total
No data 0.001 0.01 0.1 1

High-tech Goods



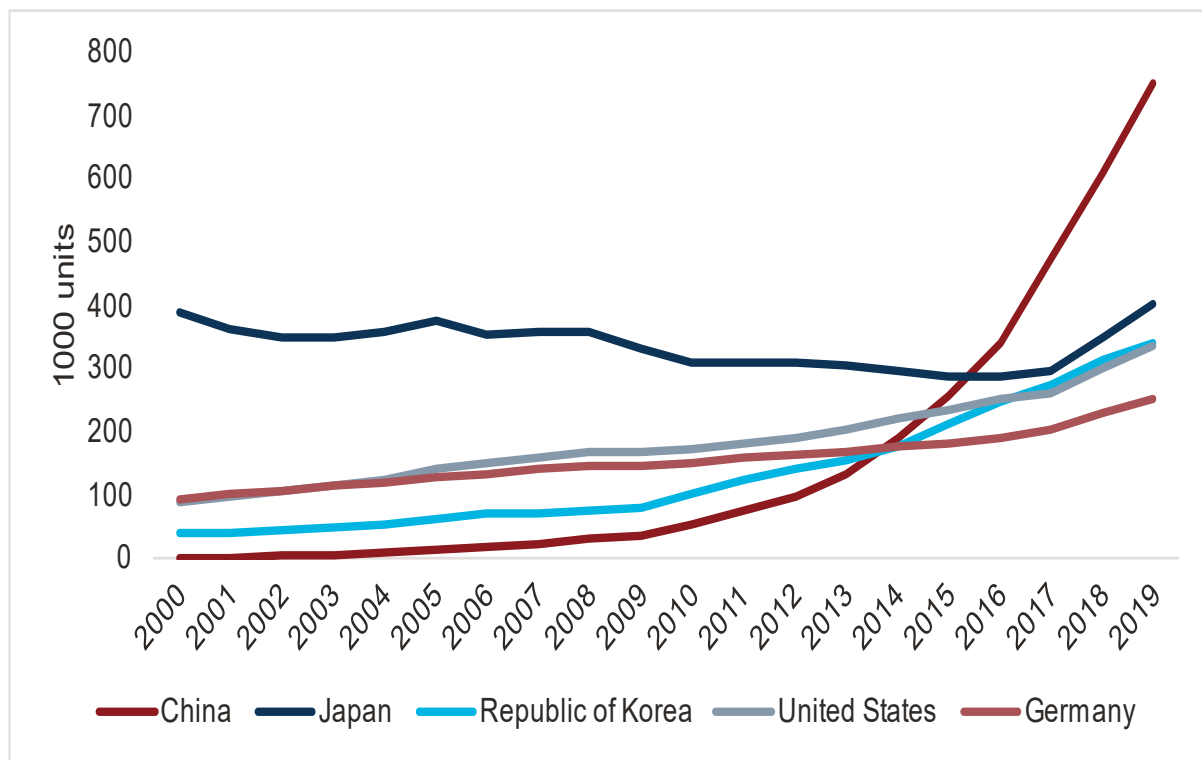
% of National Total
No data 0.001 0.01 0.1 1

Share of High-Technology Exports, Selected Cities

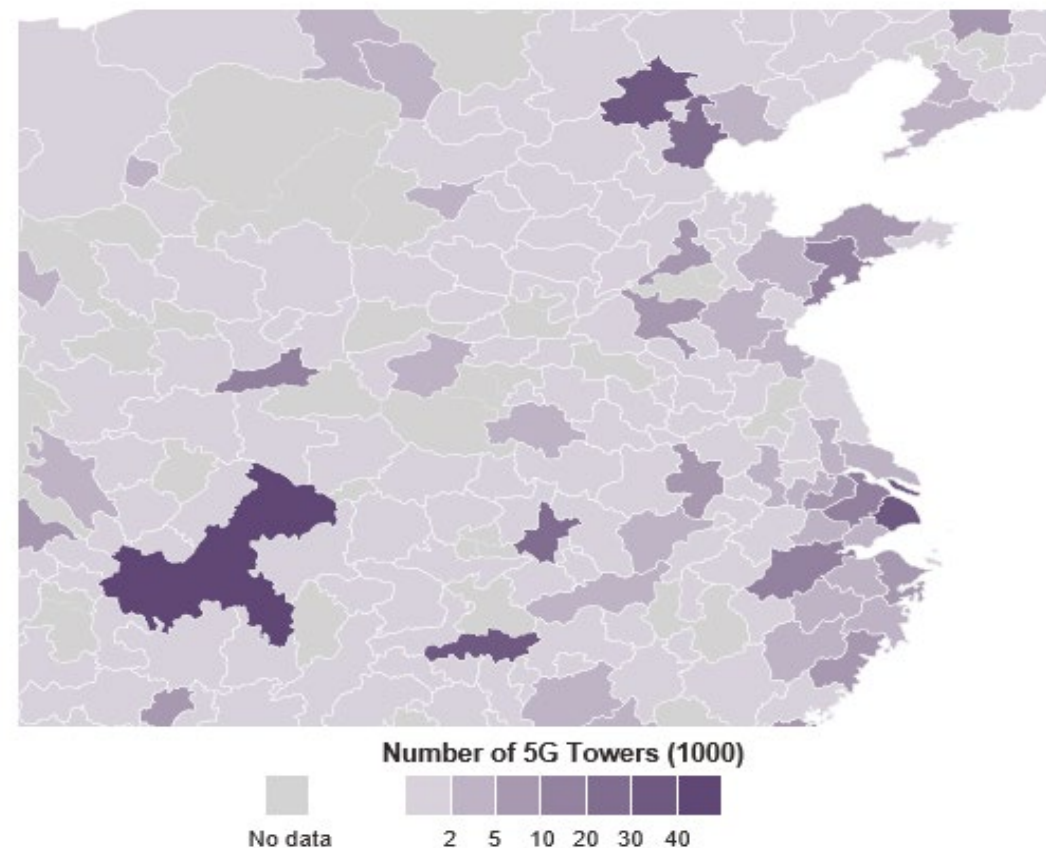


China is planning for the digital future

One of the top five robot adopters



Rapidly expanding 5G towers to inland areas, like Chengdu and Changsha



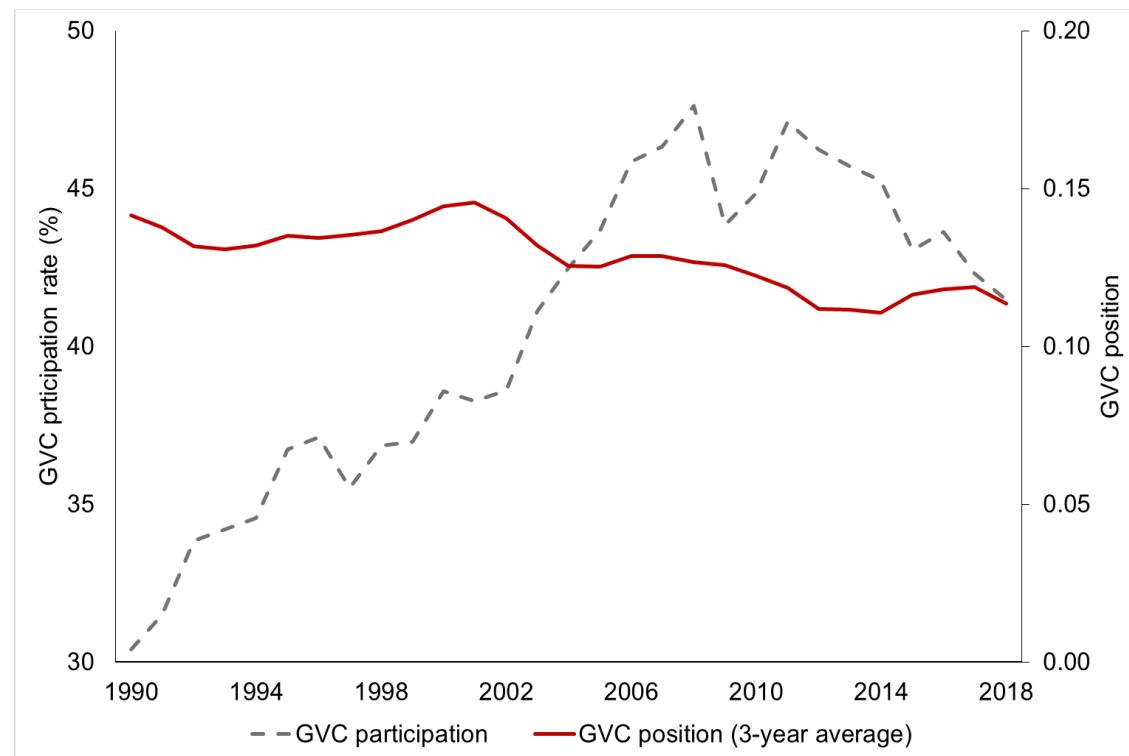
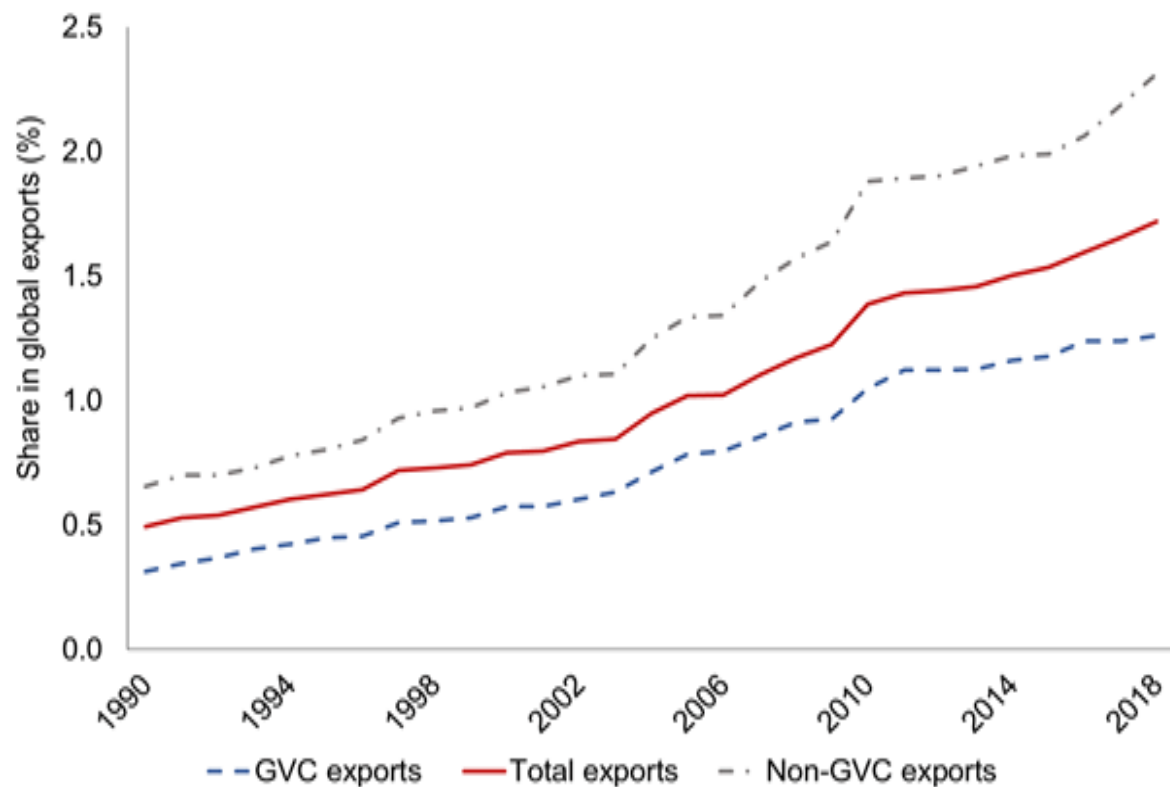
India and GVCs



India expanded GVC participation but trails smaller economies

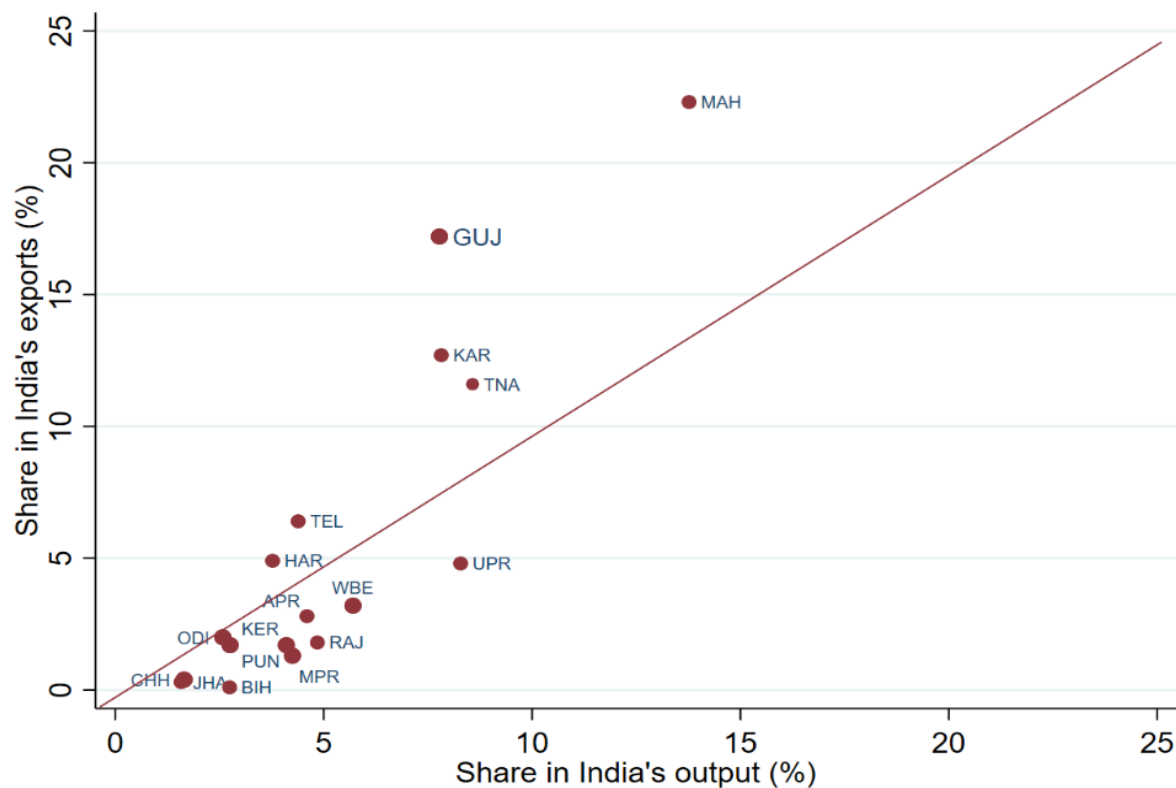
Share in global exports more than tripled

...but remains a small player

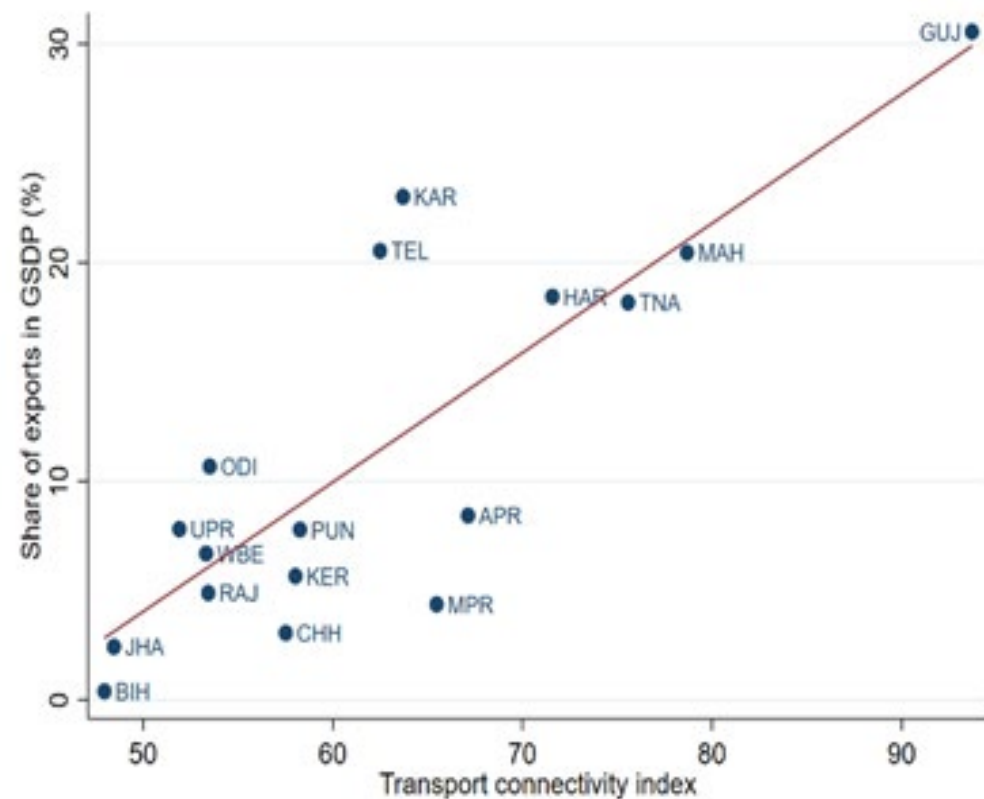


Closing internal infrastructure gaps could boost GVC participation

Exports concentrated in a few states, reflecting diverse Infrastructure and institutional quality

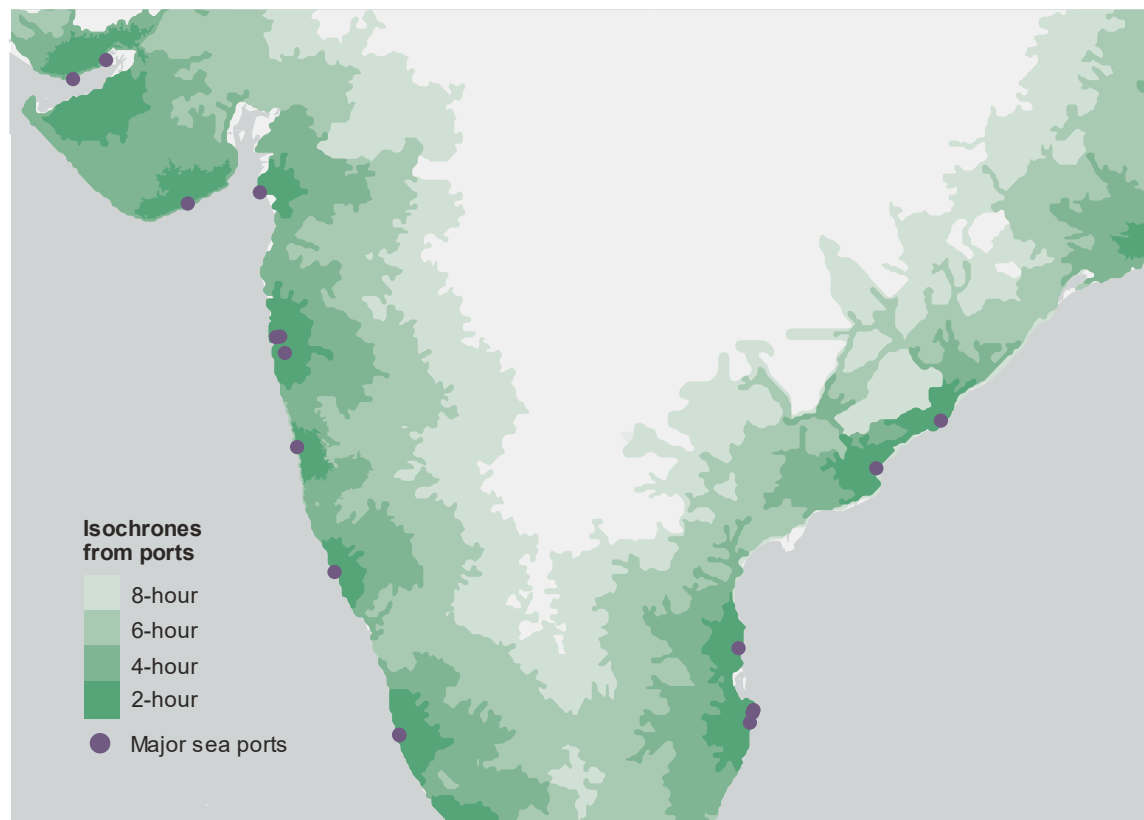


Better regional infrastructure is correlated with greater exports

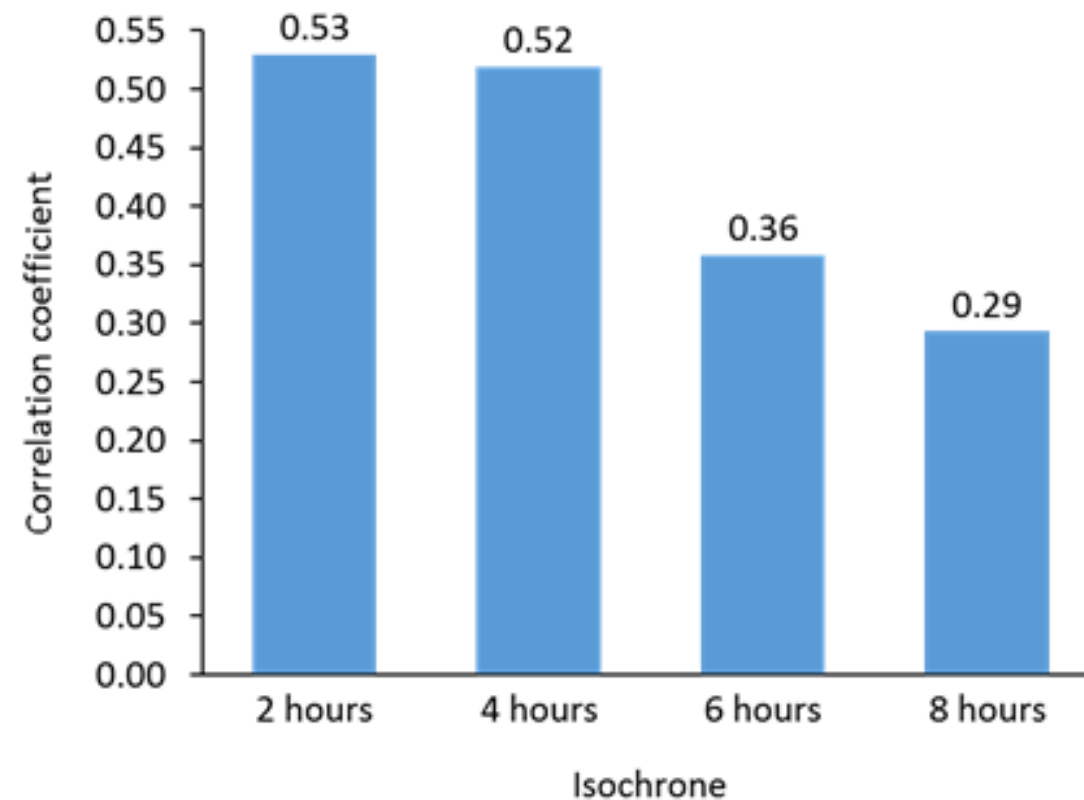


Port efficiency and connectivity to hinterlands critical

Connectivity with hinterland varies across ports



Connectivity is correlated with port export performance



Towards a policy framework



Connecting infrastructure to industrial development

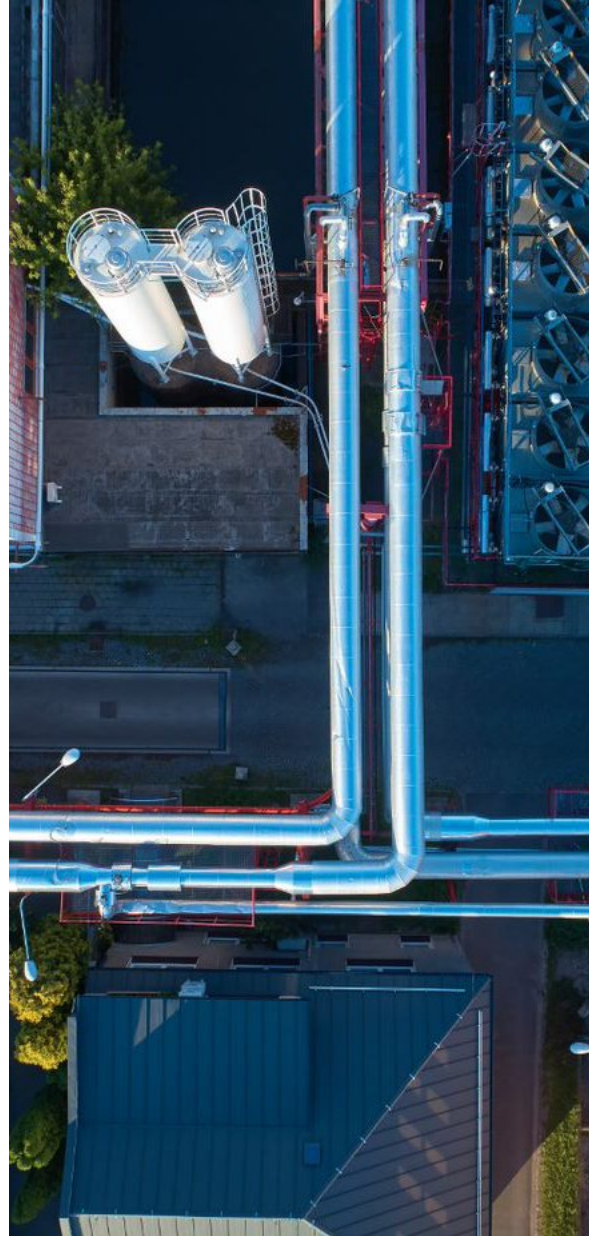
	GVC-sensitive <i>Impacting <u>and</u> designed for GVC engagement</i>	GVC-neutral <i>Not designed to target GVC engagement</i>
Place-based <i>Impacting <u>and</u> designed for specific area, jurisdiction, geography</i>	Special economic zones; regional (subnational) investment promotion agencies; local content units	Domestic connectivity and accessibility (hard infrastructure)
Place-neutral <i>Not designed to target a specific area</i>	Trade policy and regional connectivity International connectivity (logistics and customs)	Institutional quality, business environment and soft infrastructure

Rich policy options

- Institutional support and soft infrastructure
- Trade policy and regional connectivity
- Place-based interventions, e.g., special economic zones
- Institutional components: investment promotion and local content



Net zero transition – the next frontier



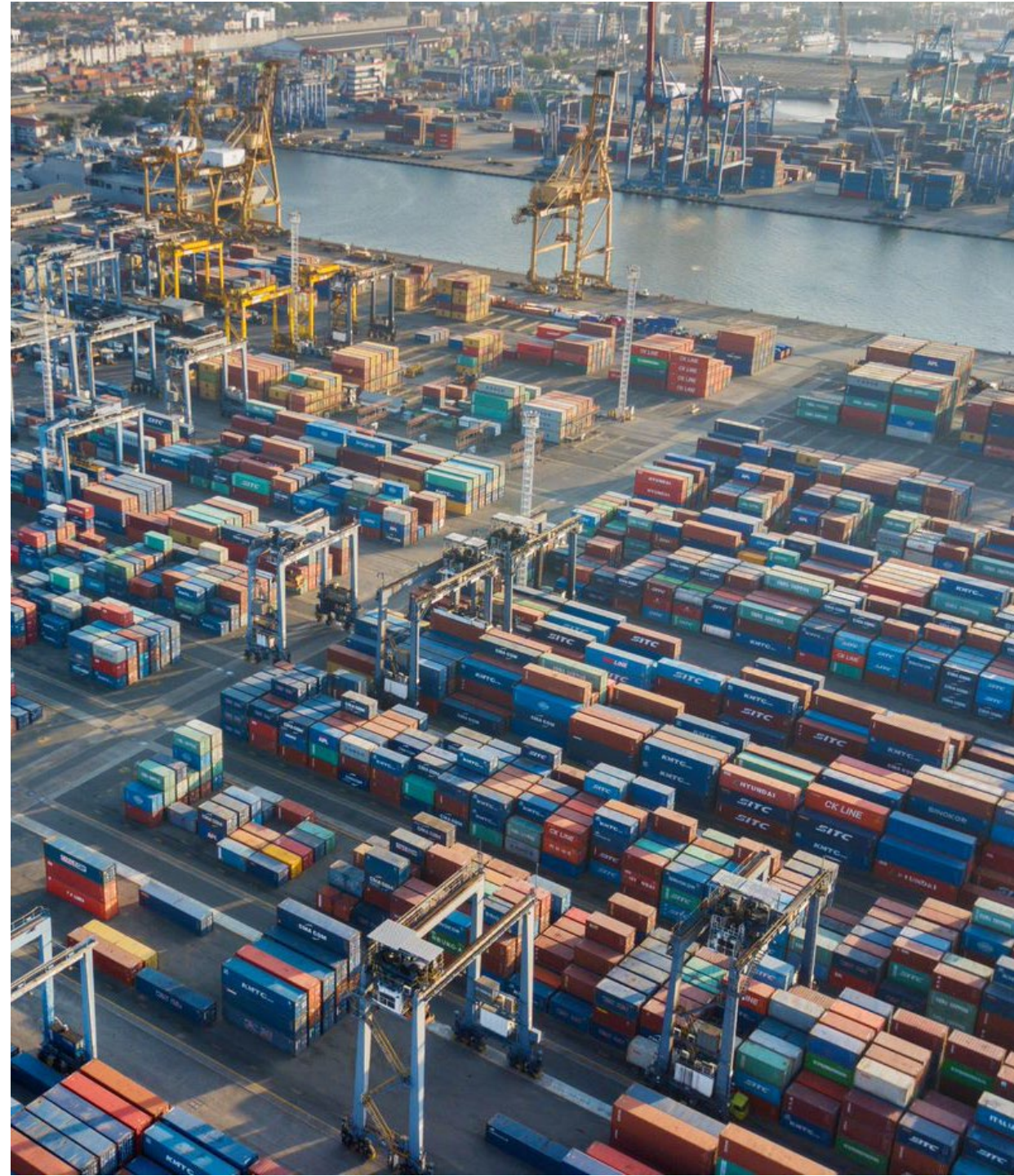
Sustaining GVCs in net zero context

- Renewable energy production
- Renewable energy trade
- Green comparative advantage
- Greening transport and logistics
- International governance



Key role of GVC lead firms

- **Imposing carbon price.** Lead firms can “price in” emissions impact of their production and inputs.
- **Common standards.** Lead firms can strengthen production standards along their value chains (scope 3 emissions).
- **Data transparency.** Lead firms to report carbon emissions, could play decisive role in increased transparency.

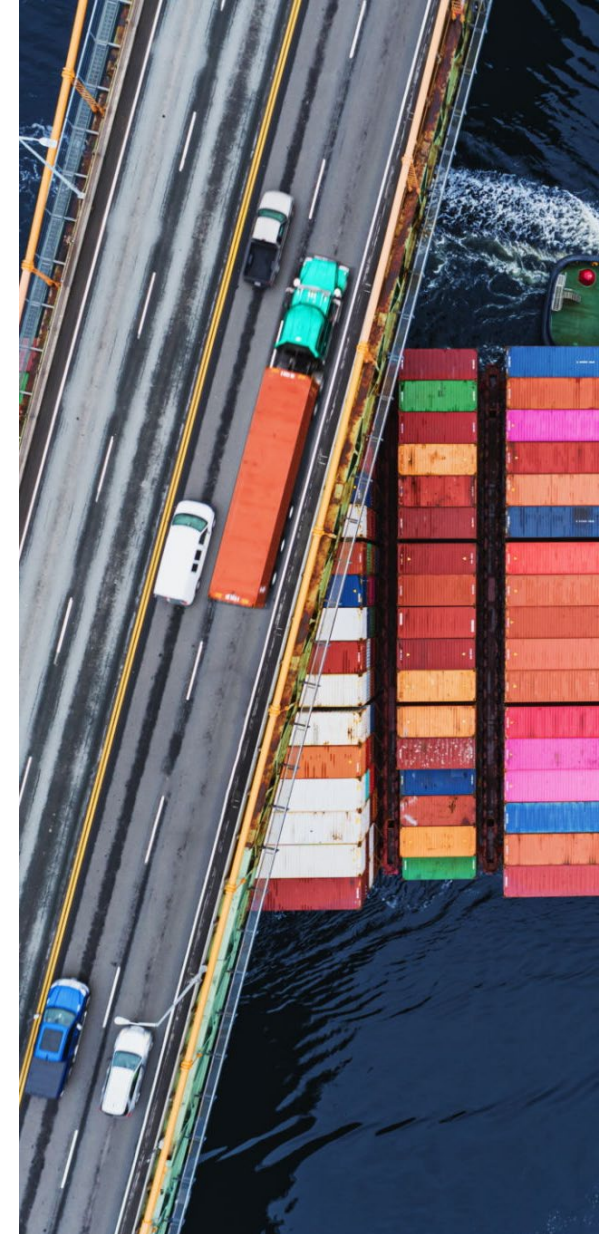
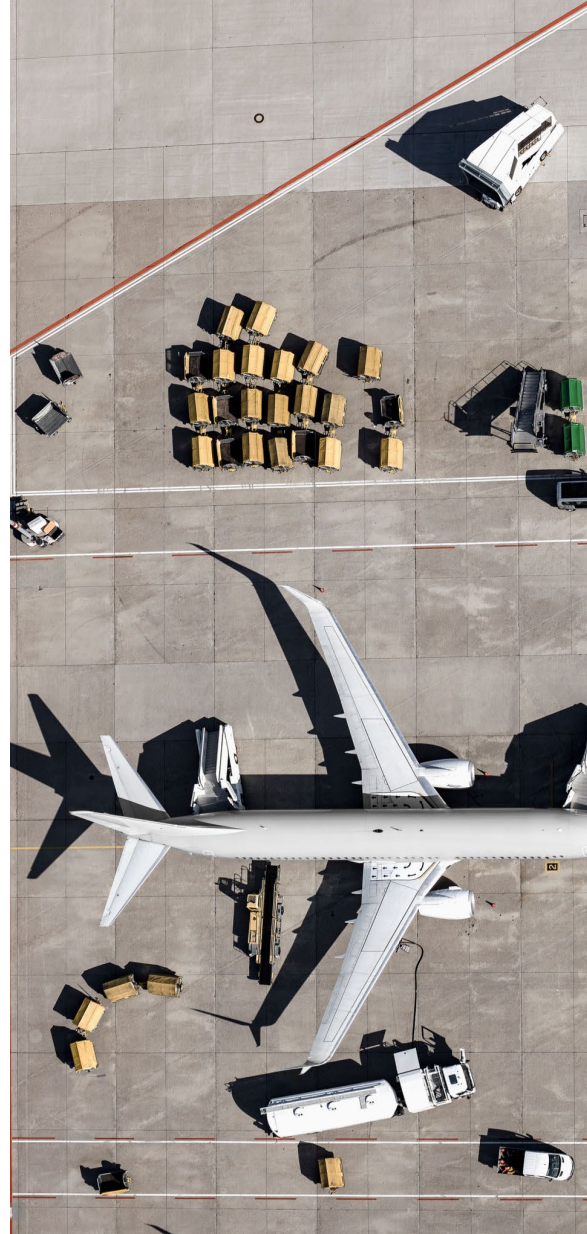


Host governments compete by offering GVCs de-carbonization opportunities

- Renewable energy
- Environmentally friendly and circular economy production
- Efficient and effective multi-modal green transport systems
- Access to inputs that preserve biodiversity



Conclusions



GVCs offer climate-smart development opportunities

- **Offer** inclusive transformation opportunities to emerging and developing economies
- **Provide** us with additional tool to achieve Net Zero transition
- **Build** large stakes in peaceful coexistence and common prosperity in Asia and beyond



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